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## BRIEFER COMMUNICATIONS.

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### MONEY AS A MEASURE OF VALUE.\*

In a paper in the *ANNALS* for January, 1893, on "The Theory of Final Utility in its Relation to Money and the Standard of Deferred Payments,"† the writer of this agreed with President Francis A. Walker that to measure value is not one of the functions of money. But further reflection has convinced him that President Walker is wrong, and that money does measure value, although it does it imperfectly. In the paper referred to it was said: "The proper function of money is not only to serve as a medium of exchange, and thereby to register ratios between values, but also to represent or indicate or reflect, not measure, values and total value. In performing this latter function money will also perform the function of a standard of deferred payments." It is the purpose of this paper to show that money not only represents but measures value. In fact, the success with which it performs the two functions is dependent upon the fulfillment of one and the same condition, namely, stability in its value. Under our present imperfect money system it performs both functions but poorly. Under the ideally "perfect money system" it would perform both functions with complete success; at the same time performing the function of a standard of deferred payments with complete success.

We will first address ourselves to President Walker's reasons for thinking that money is not a measure of value, but only "a denominator of value." His reasons are two: first, that value is a relation and not a quantity, and so cannot be measured; second, that "if money is to measure value it must itself possess value, as that which measures length or capacity possesses length or capacity."‡ And yet, says President Walker, money often has no intrinsic value whatever.

\*[The present paper was submitted to the Academy but a short time before the death of Dr. Merriam, and therefore possesses the melancholy interest of being the last finished production from his pen. For a biographical sketch of Dr. Merriam, our readers are referred to No. 1 of the XII Series of the Johns Hopkins University Studies, as well as to pp. 458 and 647 of the current volume of the *ANNALS*.—THE EDITORS.]

† *ANNALS*, vol. iii, p. 483.

‡ "Money," p. 283.

In contending that value is a relation; that relations cannot be measured, but only expressed; and consequently that the phrase "measure of value" is a misnomer which were better abolished and replaced by the term "denominator of value." President Walker is holding to the older theory of value that made value synonymous with ratios of exchange, or with the power in exchange, the purchasing power,\* based on these ratios. "The ideal money of the older writers was," in the words of the ANNALS paper referred to, "conceived in conformity with the idea of value as a relation." But "opposed to the conception of an ideal money founded on value as relation stands the true conception of ideal money founded on value as quantity." Value in the primary sense, true subjective value, or final utility, is quantity, and therefore can be measured. Goods exchange in the market inversely as their subjective values. Exchange ratios, or objective values as they may be called, are not quantities but relations between quantities. They, of course, cannot be measured. But that it is final utility or subjective value, and not objective value with which discussions concerning the measure of value have to do is sufficiently obvious to require no proof.

We come to President Walker's second contention that as money need have no intrinsic value whatever, no value "in the sense of the economists," that is, no cost of production, the measuring of value cannot be accounted one of its functions. For he apprehends that the term "common measure of value" has no significance † except it be this—that the cost of producing money "is compared with the cost of producing the commodities against which it is exchanged." We fully agree with him that "it is not the office of money to measure values in any such sense" as this.‡ But President Walker is inconsistent with himself. On his own showing value is not necessarily proportional to cost of production. "We must," he says, "get rid decisively of all remnants of the notion that things exchange on a basis of equality because they have cost equal amounts of labor. . . . It is simply a question of the demand for an article and the supply of it. The cost of production only comes in as influencing the supply. . . . If this be so where goods are exchanged for goods it is not the less so where goods are exchanged for money."§ And

\* It may be remarked in passing that to define value as purchasing power is to define value in terms of itself: the value of a thing is its capacity to exchange for other valuable things. No explanation whatever as to *why* things are valuable and no indication whatever as to *how* valuable they are is afforded by such a definition.

† "Money," p. 285.

‡ "Money, Trade and Industry," p. 37.

§ "Money," p. 286.

yet according to President Walker, "a paper money expressing simply the will of the sovereign or accepted irrespective of any intrinsic worth by the general consent of the people," though it "may serve as a medium of exchange, and if confined within the limits of money of gold or silver may remain without necessary depreciation," is nevertheless "destitute of value in the sense of the economists."\*

No one has argued more forcibly than President Walker that whatever does money-work is money, no matter whether it has "intrinsic" value or not. The use of the word *intrinsic* betrays a misconception. No value is intrinsic or absolute, but all value is relative—relative to human wants. Whatever satisfies human wants, whatever subserves human ends, providing it does not exist in unlimited quantity, is valuable and nothing else is valuable. There needs no proof that money is valuable whether it cost much or little or nothing at all. Its claim to the possession of value rests upon precisely the same basis as the claim of anything else, namely, upon its utility taken together with its scarcity. If it be composed of inconvertible paper, its utility as money is its only utility. But if it be composed of the precious metals, its utility as money is of course not its only utility.

We conclude then that the function of measuring value cannot be denied to money on the ground that it does not itself possess value.

If money measures value it does so in and through the fact that it is the universal medium of exchange. In the process of buying and selling everything is brought into contact with money, the value of everything is compared with the value of money and expressed in terms of money. It is true that as respects any given transaction the value of money is to some extent dependent upon that transaction as making its contribution to the money demand. But this contribution is a small one and we can conceive of the dollar as coming to any particular act of sale and purchase with its value already determined by the great mass of transactions.† As far as any particular act of sale and purchase is concerned the value of the dollar is virtually as independent of that act as the weight of the pound disc is independent of any particular act of weighing. And it is virtually as intrinsic.

This suggests the interesting and instructive analogy that exists between value and weight. Weight is due to the attraction of the earth's mass: value is due to the attraction, so to speak, of the human mind. Just as the earth's mass pulls at the pound weight, which pulling we call the force of gravity, so the human mind pulls at the dollar, which pulling we may call the valuing force. If the mass of the earth

\* *Ibid.*, p. 298.

† If the money material be the precious metals, their use in the arts will of course help to determine the value of the dollar.

is constant, the force of gravity will be constant and the (absolute)\* pressure exerted by the pound weight will be invariable. So, if the valuing force of the human mind is constant, the value of the dollar will be invariable. But while the mass of the earth would appear to be pretty nearly constant and the pressure exerted by the pound weight in consequence invariable, invariability cannot be predicated of the value of the dollar. The value of the dollar is equal to the value of what it will buy, and this is a variable. This variable depends on the one hand upon the number of physical units of goods which the dollar will buy, and on the other hand upon the value of a unit. That is, it depends upon the "purchasing power" of money as reflected in prices and explained by Mill and the other economists, and upon the general level of final utilities.

But for money to perform perfectly the functions of a representative of value, of a measure of value and of a standard of deferred payments, its value must be stable. The conditions of stability are "the materialization, as it were, of the ultimate unit of value and its practical application to the measurement of value," and "such regulation by government of the amount of money that prices and total price shall correspond exactly with value and total value." For a discussion of the obstacles to the realization of these conditions, the writer would refer to the paper in the *ANNALS* already mentioned. These obstacles are at present insurmountable and may always be so. But, supposing them surmounted, money would be a perfect representative of value—a perfect measure of value and a perfect standard of deferred payments.

L. S. MERRIAM.

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AN UNFINISHED STUDY BY DR. MERRIAM.

In addition to the paper on "Money as a Measure of Value," Dr. Merriam, just before his death, had in hand a more extended paper on a similar subject. It would have replied to Professor Ross' paper on "Money as a Standard of Deferred Payments," and would have carried the discussion to some ulterior conclusions not reached, as yet, in the published papers. If his notes had been more complete it would have been best to print them without change or comment. They would have represented, in a direct way, Dr. Merriam's view, and would have afforded, to a discerning reader, an idea of the character of the article that was taking shape in the author's mind, as well as an idea of the fruitfulness of the further work that this brilliant young economist had immediately before him.

\*Absolute, because whatever the force of gravity the relative pressure of the pound weight will be invariable, the earth's attraction being exerted uniformly on everything in proportion to its mass.